

Presence before power

China's Arctic strategy in Iceland and Greenland

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Louise van Schaik
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Clingendael Report



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Cover photo: China's research icebreaker Xuelong arrives at the roadstead off the Zhongshan station in Antarctica, Dec. 1, 2018 © [Xinhua/Liu Shiping](#)

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Executive summary

When, in 2018, the People's Republic of China published its first Arctic strategy, claiming that the Middle Kingdom is a '**near-Arctic state**', many a snigger could be heard throughout the world of Arctic diplomacy. Yet, it is quickly becoming clear that China has built a geostrategic presence in the Arctic that is not to be sniggered at. It is already reshaping circumpolar politics in fundamental ways. Therefore, this Clingendael report aims to answer the following questions:

- *What are the **long-term drivers** behind China's growing presence in the Arctic?*
- *How is China currently shaping **Arctic relations**?*
- *How should **Europe and the Netherlands engage** with China's growing presence in the Arctic?*

Presence before power: what are the long-term drivers behind China's growing presence in the Arctic?

China's engagement with the Arctic was born as a geopolitical conundrum: in the midst of the Cold War the Arctic was seen as a vital part of China's security environment, over which it had no control. Following China's policy of opening up, China's Arctic engagement was further fuelled by commercial interests developed within the context of its maritime strategy, and led to China playing an increasingly influential role in scientific exploration and Arctic governance. Since Xi Jinping took office in 2012, China's Arctic policy has adopted an **explicit geopolitical purpose**, within the context of China's geo-economic expansion, maritime ambitions and its changing relations with the US and Russia. China, in short, aims to build a significant geostrategic presence, not to dominate the region, but to be able to translate that presence into **power** if and when the geopolitics of the Arctic heat up.

The presence of voids: how is China currently shaping Arctic relations?

Indeed, the geopolitics of the Arctic are already heating up. The stakes are long term, but high: to China, the Arctic is one of the arena's in which its fate as a superpower will be decided. China's focus on the Arctic lies first and foremost in the opening-up of the **Northern Sea Route**, which trails the Russian coast. Due to climate change, it is expected to be fully operational as a shipping route, meaning it will be ice-free throughout the year by 2030. A fully operational Northern Sea Route (NSR) provides China with a unique commercial and geostrategic opportunity, creating a major shipping hub between Asia and Europe free from US dominance.

In parallel, Huawei Marine is hired as part of a joint venture to lay down communication cables along the NSR in a Finnish project called Arctic Connect. Experts warn that this would enable China to increase its defensive and offensive intelligence-gathering capabilities, because its data transfers would no longer flow through foreign cables. Moreover, as data cables can also be used for gathering military surveillance information, there are worries that Arctic Connect could be turned into an **undersea surveillance system**.

Above all, **Iceland** and **Greenland** are focal points in China's long-term Arctic strategy. The two countries share general geostrategic features. Both have a close yet contested relationships with the EU and with non-EU European countries. Of all Arctic countries, Iceland and Greenland have invited the highest levels of Chinese investments as a percentage of GDP. More fundamentally, China has slowly built an impressive geostrategic presence in both territories, using the voids left by European policy.

With respect to **Iceland**, China's story began in 2008, when the global financial crisis hit the Icelandic economy hard, leading to a deep economic depression. As Iceland's application for EU membership failed over the issue of fishing quotas in 2013, the country was not eligible for recovery financing from the EU's structural fund. In that same year, Iceland wrote history by becoming the first European country to sign a free trade agreement with the People's Republic of China (PRC), by which China has become the number three export destination for Icelandic goods. Sino-Icelandic cooperation has taken flight ever since, with China building one of its largest embassy buildings in the world in Reykjavik.

In **Greenland**, China began building its strategic presence following the adoption of the Self-Government Act of 2008, which gave the territory of Greenland an increasing level of autonomy, including the ability to conclude agreements with foreign states. While for China the focus of its presence in Greenland lies in polar research, natural resources and infrastructure, Greenland is looking for investments that allow the territory to diversify its economy and become less dependent on the Kingdom of Denmark. Greenland is attractive for its abundance of scarce materials, and the US is also stepping up its influence by means of increased financial support, after its failed attempt to buy the island.

The power of presence: how should Europe engage with China's growing presence in the Arctic?

China's Arctic strategy, in particular as it materialises in Iceland and Greenland, leads us to conclude that China's growing presence in the Arctic is not a direct threat to European countries but rather a **long-term strategic issue** of great importance, but not great urgency.

Above all, China shows the **power of presence** by claiming a seat at the table in the Arctic Council and by investing in strategic sectors and diplomatic relations with Arctic states. Europe's challenge will be to re-engage with Iceland and Greenland, and China's presence there, in a similar multi-layered way, coordinating **short-, medium- and long-term** strategies. Specifically, European countries should:

- 1. Take opportunities in the short term:** China's growing presence in the Arctic provides a huge opportunity, especially in the short term, for European research as well as for the economies of the European Arctic countries.
- 2. Prepare for competition in the medium term:** In the medium term, European countries should prepare for **commercial competition** with China, the US and Russia over the potential gains of an ice-free Arctic.
- 3. Build presence in the long term:** China challenges European countries to rebuild a strong geostrategic presence in the High North, (re)embracing issues of security and great power competition, not to aggravate but to lower tensions between China, the US and Russia.

The Netherlands should advocate for a more pronounced EU Arctic policy. It should support strategic adjustments to the EU's raw materials policy and its support for Overseas Territories (like Greenland), fisheries and (digital) connectivity policy. It should step up its diplomatic ties with Iceland and Greenland. The Netherlands should also consider how it can reinforce its direct ties with Iceland and Greenland, for instance through intensified science cooperation. The Netherlands could also enhance dialogue with other Arctic states (e.g. with Finland) on China's growing presence, reconsider how EU policy towards Russia may have unintended consequences for intensified Sino-Russia relations in the Arctic and start a debate on an inclusive forum to discuss the geopolitics of the Arctic and think about confidence-building measures.

1 Red flag: waking up to China in the Arctic

Thirty spokes are joined in the wheel's hub.

The hole in the middle makes it useful.

Mould clay into a bowl.

The empty space makes it useful.

Cut out doors and windows for the house.

The holes make it useful.

Therefore, the value comes from what is there,

But the use comes from what is not there.

Laozi, Dao de Jing

It is fair to say that on 31 October 2001 international media did not pay attention when a scientist called Gao Dengyi and his team of polar scientists raised the **red flag** of the People's Republic of China to mark the opening of the China Yilite-Morning Arctic Scientific Expedition and Research Station in Longyearbyen, Svalbard, Norway. And, frankly, why would they have done so?

This Clingendael report aims to answer that question. It asks:

- *What are the **long-term drivers** behind China's growing presence in the Arctic?*
 - *In what ways is it strengthening ties to Iceland and Greenland?*
- *How is China currently shaping **Arctic relations**?*
- *How does its growing presence in Greenland and Iceland play out? How can **the Netherlands and the EU engage** with China's growing presence in the Arctic?*
 - *What risks and opportunities arise from China's growing presence in the Arctic?*

This report focuses on two case studies: **Iceland** and **Greenland**. Aside from Russia, these are the focal points of China's Arctic strategy. Iceland and Greenland share general **geostrategic features**: both the autonomous territory of Greenland – a constituent part of the Kingdom of Denmark – and the country of Iceland are islands, have small populations, contain a wealth of natural resources, are economically fragile, and have a close but contested relationship with the EU and non-EU European countries. Their economies have attracted the **highest levels of Chinese investments** as a percentage of GDP of all Arctic countries, although nominally they are outflanked

by Russia, the US and Canada. Both the Kingdom of Denmark and Iceland are founding members of **NATO**.

From these cases, and from analysis of the broader context of China's Arctic strategy, it will become clear that China's long-term goals in the Arctic are not primarily scientific, climate change-driven or indeed commercial: China aims to build a significant geostrategic presence, not to dominate the region, but to be able to translate that presence into power if and when the geopolitics of the Arctic heat up.

We will argue that to the EU, and indeed to the Netherlands, China's Arctic strategy is a classic **grey rhino-challenge**. That is, it is a long-term issue with potentially an enormous impact on Europe's geopolitical standing and security, but as it is not likely to prove contentious or urgent in the short term, European countries will struggle to protect their interests accordingly.

This report is built on a wide review of literature pertaining to China's **global strategy**, maritime strategy, history of engagement in the Arctic, Sino-Russian relations and European issues in the Arctic, as well as interviews with relevant stakeholders. Chapter 2 discusses why China has been steadily expanding its Arctic presence for decades. Chapter 3 asks what China is doing in Iceland and why. Chapter 4 answers the same questions for Greenland. Chapter 5 concludes with a strategic perspective on how the EU and the Netherlands should engage with China's presence in the Arctic in the **short, medium and long term**.

2 Presence before power: why China became a near-Arctic state

When, in 2018, the People's Republic of China published its first Arctic strategy, claiming that the Middle Kingdom is a '**near-Arctic state**', a snigger could be heard throughout the world of Arctic diplomacy. Indeed, with Beijing being further removed from the North Pole than, for instance, Berlin, it certainly was a steep claim to make. Yet, its symbolic importance to Chinese geopolitics is not to be sniggered at. China's history of engagement with the Arctic reveals a **longstanding ambition** to be recognised as a great power in circumpolar politics.

Timeline of China's engagement with the Arctic

- 1882 | Chinese scientists take part in First International Polar Year
- 1925 | Republic of China signs Spitsbergen Treaty
- 1951 | First Chinese participation in Soviet research in the Arctic
- 1964 | State Oceanic Administration is established, with a brief to 'engage in polar expeditions in the future'
- 1971 | People's Republic of China takes a seat in United Nations and Security Council
- 1995 | Visits to the Arctic, Chinese Academy of Sciences sets up Polar Science Committee
- 1996 | China Arctic and Antarctic Administration (CAA) set up
- 1996 | China joins International Arctic Science Committee
- 1999 | CAA dispatches Xue Long on first Arctic expedition
- 2001 | Opening of the temporary research station China Yilite-Morning Arctic Scientific Expedition and Research Station on Svalbard, Norway
- 2004 | Opening of permanent Arctic Yellow River Station on Svalbard, Norway
- 2007 | China accepted for the first time as a temporary observer on the Arctic Council
- 2013 | China accepted as a permanent observer on the Arctic Council
- 2014 | Xi Jinping says China strives to be a 'polar great power'
- 2015 | Chinese Communist Party (CCP) identifies the polar regions, the deep seabed and outer space as China's new strategic frontiers

- 2016 | Xue Long sets off on seventh Arctic expedition
- 2018 | CCP reshuffle integrates Arctic and maritime policy within geopolitical strategy making, under Xi's supervision
- 2018 | Chinese Arctic Policy White Paper announces the Polar Silk Road

2.1 Building presence: the long-term drivers behind China's engagement with the Arctic

Chinese official accounts often refer to the Spitsbergen Treaty, to which the Beiyang Government of the Republic of China became a signatory in 1925, as proof of China's **historically legitimate presence** in the Arctic.¹ The Spitsbergen Treaty recognises the sovereignty of Norway over the archipelago of Spitsbergen (Svalbard), while giving all signatories equal rights to engage in commercial activities on the islands.² Civil war and the Japanese occupation pushed the Arctic far off the Chinese political agenda in the decades afterwards.

When it came back, it did so as a **geopolitical conundrum**. After the 1960 Sino-Soviet split, the Soviet Union threatened a nuclear strike against China. Both US and Russian missile trajectories to China cross the Arctic, going over the Spitsbergen (Svalbard) archipelago. Consequently, China came to recognise the Arctic as an equally vital, as well as problematic, part of its **nuclear security**, as China was in no position to exert control over the region. Consequently, Chinese media discussing the Arctic in the 1970s focused on Russian and American military capabilities in the region, framing their influence as a security threat to China.³

Interest in the Arctic evolved in the 1980s, when China woke up to the **commercial potential** of the Arctic, as Anne-Marie Brady explains:

In the 1980s and 1990s, public reports in the Chinese media on the Arctic emphasized the Arctic's wealth of untapped mineral resources, its rich fishing grounds, the strategic significance of the Arctic Ocean for the militaries of great powers, and the Arctic as the shortest shipping route between Asia and northern Europe and North America.⁴

1 Brady, A.M. 2017. *China as a Great Polar Power*, Cambridge, Cambridge University Press.

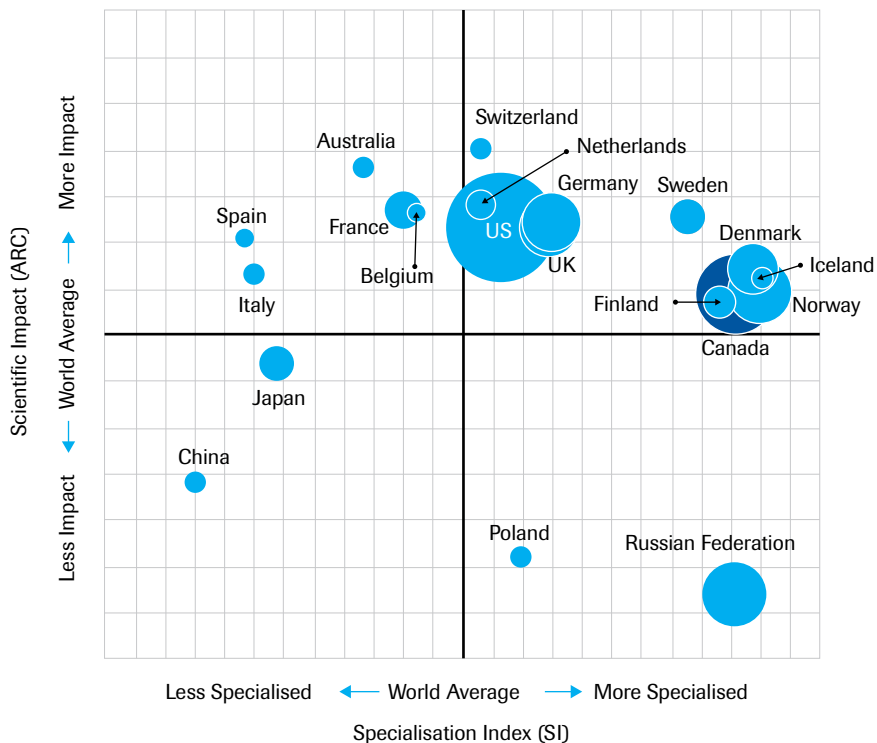
2 [Treaty of February 1920 relating to Spitsbergen \(Svalbard\)](#), [Act of 17 July 1925 relating to Svalbard](#), [The Mining Code for Spitsbergen \(Svalbard\)](#), Norwegian Royal Ministry of Justice.

3 Brady, *China as a Great Polar Power*.

4 Ibid., 50.

At this point, however, China did not have the capacity to develop commercial activities in the Arctic, nor did it have the geopolitical clout to claim a place in Arctic affairs. In concurrence with Deng Xiaoping's policy of 'opening up to the world' China had to build a track record of Arctic engagement to be seen as a legitimate polar power.

In the meantime, Arctic diplomacy entered a new age: after the collapse of the Soviet Union, the High North changed from a highly militarised arena of power politics, to a shining example of international cooperation. This new narrative context of Arctic governance emphasised scientific exploration, sustainable development and diplomatic cooperation. It culminated in the foundation of the Arctic Council, still the principal forum for Arctic governance, in 1996. The Council was set up with the explicit notion of *not* discussing issues of military security. Here, China's strategy to **build a presence** in Arctic affairs by contributing to scientific exploration and sustainable development was born. China's contribution to Arctic research has grown considerably, but as can be seen in the graph below China's research is of relatively low impact, especially compared to, for instance, the Netherlands.



As we can see here, Dutch Arctic research still seems to have far more impact than Chinese research, which is also less specialised. Lackenbauer, P.W. et al. 2018. *China's Arctic ambitions and what they mean for Canada*, Calgary, University of Calgary Press.

A number of milestones empowered China to take the next step and claim a place in **Arctic governance**. In 1996 China became a member of the International Arctic Science Committee. In 1999 it purchased the Xue Long Icebreaker, which it used increasingly for Arctic expeditions from 2003 onwards. In 2003, it established the Yellow River Research Station on Spitsbergen (Svalbard), which replaced the temporary Yilite-Morning Arctic Scientific Expedition and Research Station. In 2007 it was present at the Arctic Council for the first time. In 2013 it became an observer.

Since that time, China has greatly expanded its activities in the Arctic across the spectrum of engagement: geostrategic, commercial, scientific and diplomatic.

2.2 Chokepoints: the Arctic as part of China's maritime strategy

Xi's 2014 statement that China ought to become a 'polar great power' led to the first-ever published Arctic White Paper in 2018 that heralded the establishment of a 'polar silk road'. As one can say about many aspects of China's geopolitics during the Xi era, it would be a mistake to interpret China's Arctic acceleration as wholly novel: in fact, closer consideration of China's Arctic policymaking shows that it is embedded in China's long-term **geopolitical and maritime strategies**.⁵

The management of China's polar activities – which also includes its activities in the Antarctic – are distributed among more than 17 state and party organisations. Most fall within the confines of China's maritime bureaucracy, with some branching out into national security or foreign affairs.⁶ In 2018, the State Oceanic Administration – which used to coordinate all Arctic policy as a subdivision of the Ministry of Land and Resources – was dissolved and its tasks divided over several ministries. Now, the **Central Foreign Affairs Commission of the CCP**, chaired by Xi, is the leading body to set geopolitical, maritime and, therefore, Arctic policy in China.⁷ This reshuffle should be seen as an effort to strengthen the party's – and in particular the Party leader's – control over foreign policy, and to better integrate maritime and Arctic policies within China's geopolitical strategic framework.

5 Chen, G. 2012. 'China's emerging Arctic strategy', *The Polar Journal* 2(2).

6 Brady, *China as a Polar Great Power*.

7 Mercator Institute for China Studies, [*New leadership structure of maritime rights and interests protection*](#), 2018.

As the largest trading nation on earth and home to most of the largest ports in the world,⁸ China sees US control over the important **chokepoints of global shipping** as a commercial and geostrategic threat. China's maritime strategy aims to create shipping routes that are free from US influence. In this perspective, climate change in the Arctic provides China with a relatively distant, but vital opportunity, which will, in turn, imply a major geopolitical event for the seafaring nations, including those in Europe.

China's focus on the Arctic lies, in the short term, on development of liquified natural gas (LNG), and in the long term on the opening up of the **Northern Sea Route**, which is at present still covered in ice for most of the year. Due to climate change, the NSR is expected to be **fully operational as a shipping route by 2030** and is likely to be ice free throughout the year by that year, according to the Netherlands Bureau for Economic Policy Analysis (CPB).⁹ The potential impact of the NSR opening up should not be underestimated:

In practical terms, this represents a reduction in the average shipping distances and days of transportation by around one third with respect to the currently used Southern Sea Route (SSR).

The shipping distance between China and the Netherlands will be reduced by 23 percent when the NSR opens up. In 2013, M/V Yong Sheng, a commercial ship of the China Ocean Shipping (Group) Company (COSCO) undertook its first voyage from a Chinese port to Rotterdam via the NSR.¹⁰ It should be noted that two other shipping routes in the Arctic could open up as a result of melting polar ice: the Northwest Passage, which trails the Canadian Coast, and the Transpolar Sea Route. However, both are expected to be ice free later than the NSR.

8 Van der Putten, F.P. and Meijnders, M. 2015. [*China, Europe and the Maritime Silk Road*](#), The Hague, the Clingendael Institute.

9 Bekkers, E. et al. 2015. [*Melting ice caps and the economic impact of opening the Northern Sea Route*](#), The Hague, CPB Netherlands Bureau for Economic Policy Analysis.

10 Tillman, H. et al. 2018. [*'The Polar Silk Road: China's new frontier of international cooperation'*](#), *China Quarterly of International Strategic Studies*, 4.



Source: Bekkers et al., *Melting ice caps*, 2.

An operational NSR could reduce the commercial and consequently the geopolitical importance of the Southern Sea Route (SSR). The SSR connects a number of geopolitically sensitive chokepoints – from the Strait of Gibraltar, the Suez Canal, to Bab-el-Mandab and the Malacca Strait – all of which have traditionally been closely aligned with US interests. By opening up the NSR, climate change in the Arctic offers China a unique opportunity, not only to further its commercial interests, but to accelerate its announced rise as a **‘great maritime power’**.¹¹

The 2018 Arctic policy White Paper is novel in the sense that it explicitly links the Arctic – so far mainly a maritime issue – to China’s **Belt and Road Initiative (BRI)**, adding a more explicit geostrategic dimension to China’s narrative on the Arctic:

The Silk Road Economic Belt and the 21st-century Maritime Silk Road (Belt and Road Initiative), an important cooperation initiative of China, will bring opportunities for parties concerned to jointly build a ‘Polar Silk Road’, and facilitate connectivity and sustainable economic and social development of the Arctic.

11 McDevitt, M. 2016. [‘Beijing’s dream: becoming a maritime superpower’](#), *The National Interest*, 1 July.

*... China hopes to work with all parties to build a '**Polar Silk Road**' through developing the Arctic shipping routes. It encourages its enterprises to participate in the infrastructure construction for these routes and conduct commercial trial voyages in accordance with the law to pave the way for their commercial and regularized operation.*¹²

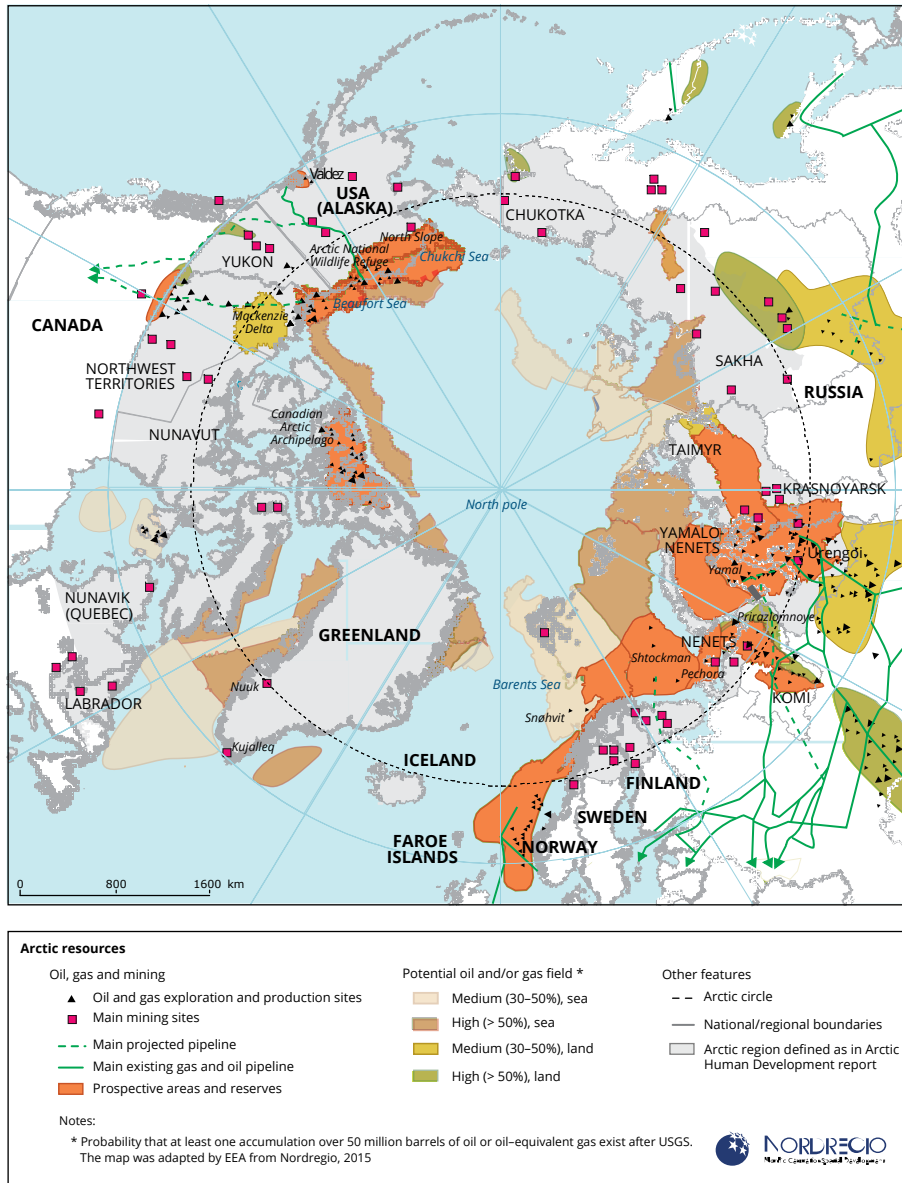
The Polar Silk Road strategy is a combination of newly initiated projects and the re-branding and acceleration of existing projects, aimed at enhancing China's economic presence in the Arctic. At the same time, it is a consequence of China's old Arctic conundrum, wanting to be a major player in a geopolitical arena in which it has no territorial foothold. As such, it is already shaping **great power relations** in the Arctic arena.

2.3 Geopolitics on ice: how China is shaping Russian and US Arctic policy

The concept of a Polar Silk Road was first coined not by Xi Jinping, nor by any other Chinese official, but by a Russian minister at a 2011 conference on Arctic security. This was widely seen as part of **Russia's efforts** to find the necessary partners to develop its Arctic coast as a major hub in Eurasian connectivity.¹³

12 [*China's Arctic Policy*](#), The State Council Information Office of the People's Republic of China, January 2018.

13 It was then called the 'Silk Road on Ice'. See: Tillman et al., 'The Polar Silk Road', 347.



The **commercial potential of the Russian Arctic** is significant,¹⁴ as it holds the bulk of the Arctic's undiscovered natural resources, which, estimates say, add up to roughly 13 percent of the world's undiscovered crude oil and 30 percent of undiscovered natural gas.¹⁵ The Yamal-Nenets region carries particular weight in this respect. Russia, however, lacks the technology and capital to develop the region on its own. Before the **2014 sanctions** were imposed, a range of Western companies with the necessary expertise, among them Shell, were expected to join in.¹⁶ But after the sanction regime hit the Russian oil and gas industries, Russia had to look elsewhere. Specifically, it decided to look east.

In 2017, Chinese Foreign Minister Wang Yi told his Russian counterpart Sergei Lavrov that:

*China welcomes and supports the 'Ice Silk Road' initiative proposed by Russia, and stands ready to, together with the Russian side and other parties, jointly explore Arctic routes.*¹⁷

This was quickly followed by a statement, made as part of China's *Vision for Maritime Cooperation under the Belt and Road Initiative*, confirming that it envisions a **'blue economic passage'** leading to Europe via the Arctic Ocean.¹⁸

Chinese financing has been key in the economic development of the Russian Arctic. In 2016 the Russian Liquefied Natural Gas (LNG) producer Novatek signed an agreement with the China Development Bank and the Export-Import Bank of China for loans of US\$ 12 billion to finance the Yamal LNG project.¹⁹ A year later President Putin launched the US\$ 27 billion plant. Novatek is the majority shareholder (50.1%): 20 percent of shares are owned by the state-owned China National Petroleum Corporation (CNPC) and 9.9 percent by China's Silk Road Fund.²⁰ Recently, Novatek announced the construction of Yamal LNG 2, again funded by CNPC (10%) with additional funds from

14 [Arctic Resources](#), European Environment Agency, 2017.

15 [Circum-Arctic Resource Appraisal: Estimates of undiscovered oil and gas north of the Arctic Circle](#), United States Geological Survey, 2008.

16 Staalesen, A. 2011. ['Shell negotiating Arctic deals'](#), *Barents Observer*, 24 March.

17 [Wang Yi: Russia is an important strategic partner of the joint construction of the 'Belt and Road'](#), Embassy of the People's Republic of China in the Federal Republic of Nigeria, 2017.

18 [Vision for Maritime Cooperation under the Belt and Road Initiative](#), China's National Development and Reform Commission and the State Oceanic Administration, 2017.

19 Tillman et al., 'The Polar Silk Road', 354.

20 And, interestingly, 20% of shares are owned by the French company Total. See: ['About the project'](#), Yamal LNG website.

the China National Offshore Oil Corporation (10%).²¹ It should be noted that European financing is far from absent, with French Total being involved as well.

Overall, China has provided up to 60 percent of funds for the Yamal LNG development; in return, 80 percent of equipment will be produced in Chinese shipyards.²² Gas from Yamal can reach Chinese ports in two weeks, half the time required to ship gas from the Middle East via the Suez Canal.²³ China has committed to building a new mega-port in Arkhangelsk,²⁴ which COSCO will use as its base for Arctic shipping.²⁵ Recently, the China Development Bank provided Russia's state Vnesheconombank with a **\$9.5 billion credit agreement** to develop the Northern Sea Route and fund other Silk Routes in the Russian Arctic.²⁶

Strategic cooperation between Russia and China in the Arctic has increased in other fields as well. In 2015, Russia and China announced they would team up to develop **satellite navigation**.²⁷ Both countries have developed navigational systems that ought to be able to compete with or replace the ubiquitous and US-owned GPS. China's BeiDou is expected to be able to live up to that promise.²⁸ Last year, BeiDou initiated global coverage, and in September 2019 it announced it would run tests, to be carried out at its research station in Spitsbergen (Svalbard), aimed at improving BeiDou performance in the High North, easing its navigation along the Russian coast in particular.²⁹ In addition to this, China and Russia agreed to launch a joint research centre to forecast weather conditions on the NSR and inform Arctic economic development.³⁰

21 Staalesen, A. 2019. '[Japan teams up with Russia in big Arctic LNG](#)', *The Barents Observer*, 1 July.

22 Sørensen, C.T.N. and Klimenko, E. 2017. [Emerging Chinese-Russian Cooperation in the Arctic: Possibilities and constraints](#), Stockholm, Stockholm International Peace Research Institute, 32-33.

23 Gallo, E. and Biava, G. 2019. '[A new energy frontier called 'Polar Silk Road': China Daily contributors](#)', *The Straits Times*, 12 April.

24 Nilsen, T. 2016. '[New mega-port in Arkhangelsk with Chinese investments](#)', *The Barents Observer*, 21 October.

25 Staalesen, A. 2017. '[Chinese company COSCO confirms interest in trans-Arctic shipping to Arkhangelsk](#)', *The Barents Observer*, 26 September.

26 Staalesen, A. 2018. '[Chinese money for Northern Sea Route](#)', *The Barents Observer*, 12 June.

27 Xinhua/China Daily. 2015. '[China, Russia strengthen satellite navigation cooperation](#)', 10 February.

28 Information obtained from interviews.

29 Humpert, M. 2019. '[China looking to expand satellite coverage in Arctic, experts warn of military purpose](#)', *High North News*, 4 September; Si, K. 2020. '[China to launch communication test in Northern Sea Route](#)', *Seatrade Maritime News*, 31 March.

30 Niiler, E. 2019. '[China's scientists are the new kids on the Arctic block](#)', *Wired*, 5 July.

In 2015 ships from the **People's Liberation Army Navy** (PLAN) visited the Bering Sea for the first time, after having completed military exercises with Russia in the North Pacific, just when then-US President Barack Obama was visiting Alaska.³¹ At the same time, Sino-Russian cooperation has its limits, Russia being wary of China gaining too much influence.³²

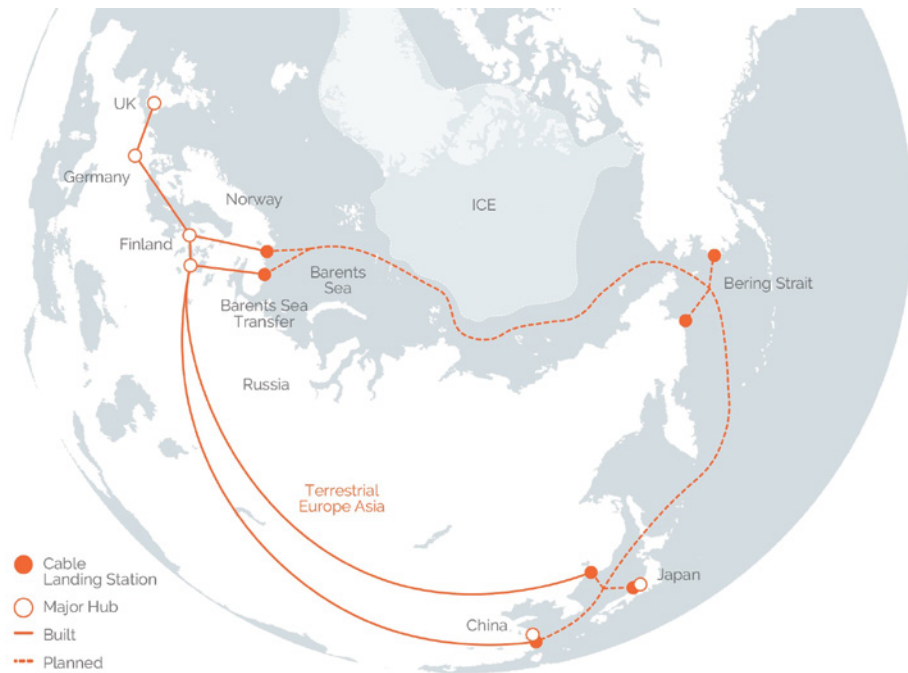
The Finnish project Arctic Connect adds a digital component to China's Polar Silk Road. Arctic Connect aims to link Europe and Asia through 13,800 km of submarine communication cables along the NSR. It promises to deliver faster and more reliable internet connections between Russia, China and Europe, and embodies Finland's hope to become a **major hub in global dataflows**. The company hired to lay these cables is Huawei Marine, a Huawei joint venture. Experts warn that this would enable China to increase its defensive and offensive intelligence-gathering capabilities, because its data transfers would no longer flow through foreign cables. Moreover, as data cables can also be used for gathering scientific and military surveillance information, there are worries that Arctic Connect could be turned into an **undersea surveillance system**.³³

31 Sørensen and Klimenko, 'Emerging Chinese-Russian Cooperation in the Arctic'; *AFP/The Guardian*. 2015.

'Chinese naval ships spotted off Alaska coast during Obama visit to state', 2 September.

32 Sørensen and Klimenko, 2017. 'Emerging Sino-Russian Cooperation in the Arctic'.

33 Jüris, F. 2020. *Handing over infrastructure for China's strategic objectives: 'Arctic Connect' and the Digital Silk Road in the Arctic*. Tallinn, International Centre for Defence and Security.



Sino-Russian rapprochement – within and beyond the PSR – has contributed to a most **dramatic flip-flop in US Arctic policy**. When it co-founded the Arctic Council, by signing the Ottawa Declaration, it pushed for an ominous footnote to be added, which stated:

The Arctic Council should not deal with matters related to military security.

By force of these words, it changed the **narrative context of Arctic governance**. In 2019 US Secretary of State Mike Pompeo did that again on the evening before the start of the Arctic Council meeting in Finland, using phrases that left little to the imagination:

*The world has long felt magnetic pull towards the Arctic, but never more so than today. ... the region has become an arena for power and for competition. And the eight Arctic states must adapt to this new future.*³⁴

34 For more on this, read Dams, T. and Van Schaik, L. 2019. [*The Arctic Elephant: Why Europe must address the geopolitics of the high north*](#). The Hague, the Clingendael Institute.

Within the Trump narrative, the Arctic fits into two frames: first, climate change is transforming it into a commercial goldmine, ready to be claimed by entrepreneurial pioneers; second, the Arctic is a massive chessboard in which new geopolitical challenges will be fought out.

Pompeo specifically called out **China's presence in the Arctic, and Russia's new Arctic engagement, as dangerous and illegitimate:**

Just last month, Russia announced plans to connect the Northern Sea Route with China's Maritime Silk Road...

Beijing attempts to develop critical infrastructure using Chinese money, Chinese companies, and Chinese workers – in some cases, to establish a permanent Chinese security presence.

Our Pentagon warned just last week that China could use its civilian research presence in the Arctic to strengthen its military presence, including our deployment of submarines – including deployment of submarines to the region as a deterrent against nuclear attack.

... China's pattern of aggressive behaviour elsewhere ... should inform what we do and how it might treat the Arctic.

... Do we want the Arctic Ocean to transform into a new South China Sea, fraught with militarization and competing territorial claims? ...

We're concerned about Russia's claim over the international waters of the Northern Sea Route, including its newly announced plans to connect it with China's Maritime Silk Road.

A month later, the Pentagon published its new Arctic defence strategy, which focused heavily on **China and Russia**. Acknowledging that China does not have a military presence in the Arctic, it warns that it may use its civilian capacities in the Arctic for military purposes, and it argues that 'there is a risk that its predatory economic behaviour globally may be repeated in the Arctic', which would be, according to the defence strategy, a national security threat.³⁵

35 [Report to Congress: Department of Defense Arctic Strategy](#), United States Department of Defense, 2019.

The US Navy and Coast Guard have since announced the US will spend roughly \$1.9 billion on a fleet of new icebreakers.³⁶ Moreover, the National Defense Authorization Act, passed by the US Senate in July 2019, directs the Pentagon to make plans for the construction of a '**strategic port**' in the Arctic, probably in Alaska, to be better able to project military power in the High North.³⁷ As a move in its trade war with China, the US blacklisted Chinese shipping company COSCO, which might have serious adverse effects on the Russian Yamal LNG projects, as well as on a Canadian joint venture with COSCO.³⁸ The growing vehemence with which the Trump administration seeks to counter China's rise are only expected to continue to influence Arctic relations.

2.4 Conclusion: why China is in the Arctic

From a historical perspective, China's engagement with the Arctic was born out of geostrategic considerations, was further fuelled by commercial interests developed within the context of its maritime strategy, and led to China playing an increasingly influential role in scientific exploration and Arctic governance. Since Xi Jinping took office in 2012, China's Arctic policy has become far more specific. It now has an **explicit geopolitical purpose**, within the context of China's geo-economic expansion, maritime ambitions and its changing relations with the US and Russia.

The question is: where does China's Arctic presence leave **the EU and the Netherlands**? Should they be worried about China expanding its presence in the Arctic or rather consider it a normal development linked to the overall economic rise of China and the Arctic region becoming more attractive commercially? And what about the specific Chinese interest in Iceland and Greenland, which are not of strategic value to the Northern Sea Route, but are otherwise strategically positioned in the region.

36 NavyTimes. 2019. '[NAVSEA: Up to \\$1.9 billion deal for Coast Guard's new icebreaker fleet](#)', 27 April.

37 [National Defense Authorization Act for Fiscal Year 2020](#), United States Congress, 2019.

38 Staalesen, A. 2019. '[US sanctions against Chinese shipping company could hurt Russia's LNG exports](#)', *The Independent Barents Observer/Eye on the Arctic*, 1 October.

3 Iceland: what is China doing there and why?

This chapter looks at China's growing engagement with Iceland. It also notes how increased economic ties might affect relations with the US and the EU.

A geopolitical timeline of Iceland

- 1941 | The United States takes over the defence of Iceland and stations tens of thousands of troops there.
- 1944 | The Republic of Iceland is proclaimed. Iceland becomes a member of North Atlantic Treaty Organization.
- 1994 | Iceland joins the European Economic Area
- 1970 | Iceland joins the European Free Trade Association.
- 2006 | US troops leave Iceland.
- 2008 | Financial crisis hits Iceland, banking sector collapses
- 2009 | Iceland applies for EU membership
- 2010 | Enx signs an agreement digging for geothermal energy in China
- 2010 | China's central bank offers 3.5 billion yuan/51 billion ISK/370 million euro currency swap with the Icelandic central bank
- 2011 | Chinese tycoon Huang Nubo tries to buy territory in Iceland
- 2012 | China and Iceland sign the Framework Agreement on Arctic Cooperation, which was the first intergovernmental agreement on Arctic issues between China and an Arctic State
- 2013 | European Union membership talks collapse
- 2013 | Iceland signs Free Trade Agreement with China, becoming the first European country to do so
- 2013 | China-Iceland currency swap renewed
- 2016 | China-Iceland currency swap renewed
- 2018 | Chinese oil company CNOOC (China National Offshore Oil Corporation) and Norway's Petoro withdraw from oil exploration in Icelandic waters
- 2018 | China invites Iceland to join the BRI
- 2019 | US Vice-President compliments Iceland on rejecting China's offer, without Iceland actually having done so.

3.1 The presence of voids (I): how China came to Iceland

The world woke up to Chinese interest in Iceland when eccentric property tycoon Huang Nuboo tried to buy a patch of land on the island in 2011. Reuters headlined:

*BEIJING (Reuters) – A Chinese tycoon whose plans to buy a large patch of land in Iceland have led to suspicions he is a stalking horse for Chinese expansionism said on Friday Beijing itself may force him to halt the deal because of the furore it has caused.*³⁹

Needless to say, the suspicions were unwarranted and Nuboo's dream did not materialise, as the Icelandic government rejected the purchase. The real story of China's presence in Iceland begins in 2008, when the **global financial crisis** hit the heavily finance-dependent Icelandic economy, creating a geostrategic and commercial void that China was able to fill.

In 2008, three of Iceland's biggest commercial banks defaulted, causing the largest banking collapse in history. Iceland's economy sank into a deep depression.⁴⁰ Already a member of the European Economic Area and Schengen, it was put on a **fast track to become an EU member** in 2009,⁴¹ not in the least because of the opportunity to apply for recovery financing from EU structural funds. It received a loan package from the International Monetary Fund, as well as from the United Kingdom, Germany, the Netherlands and Russia. The Russian loan was scaled down significantly due to geostrategic concerns over possible Russian influence on a NATO member.⁴²

Negotiations continued until 2013, but one key issue could not be resolved, namely that of **fishing quotas**. Fishing is not included in the EEA framework but quotas would become applicable to Iceland if it became an EU member. Iceland's new right-wing government feared the country's economy would be adversely affected by joining the EU, and therefore in 2015 Iceland formally withdrew its application.⁴³

In the same year that it turned away from a closer European partnership, Iceland wrote history by becoming the **first European country to sign a free trade agreement** with the People's Republic of China. It is aimed at boosting fishery exports (42.2% of all exports) from Iceland to China and bringing the Icelandic geothermal industry closer

39 Wee, S.L. and Yan, H. 2008. [‘Chinese tycoon says controversy could kill Iceland deal’](#), *Reuters*, 2 September.

40 AP/The Economist. 2008. [‘Cracks in the crust’](#), 11 December.

41 Traynor, I. and Gunnarsson, V. 2009. [‘Iceland to be fast-tracked into the EU’](#), *The Guardian*, 30 January.

42 Valdimarsson, O. and Suoninen, S. 2008. [‘Iceland gets \\$10 billion in aid’](#), *Reuters*, 20 November.

43 AFP/Euractiv. 2015. [‘Iceland officially drops EU membership bid’](#), 13 March.

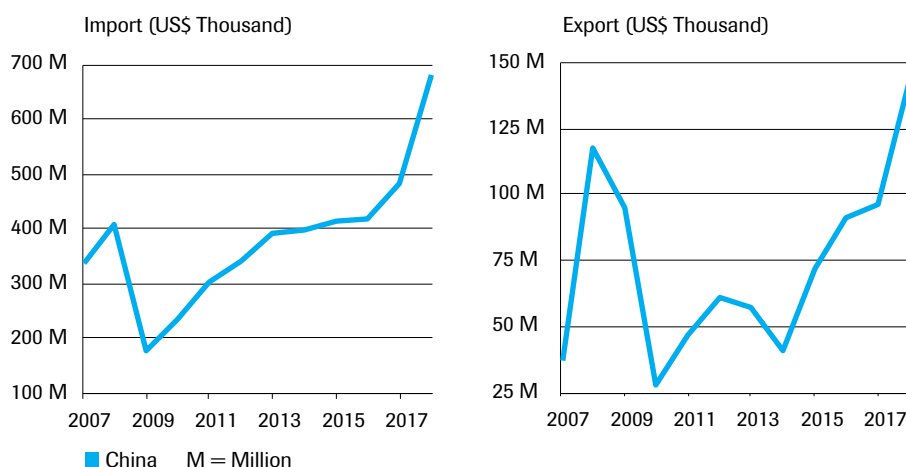
to China.⁴⁴ A spokesperson in Brussels for the European trade commissioner responded to the news of the FTA by saying that Iceland would have to terminate all of its bilateral trade deals were it eventually to join the EU.⁴⁵ Iceland's membership in the EEA, as a signatory EFTA member, of course, still stands.

The **Netherlands** is Iceland's most important trading partner: 20 percent of Iceland's exports go to the Netherlands, mostly fish.

Top 5 export and import partners

Market	Trade (US\$ mil)	Partner share (%)	Exporter	Trade (US\$ mil)	Partner share (%)
Netherlands	1,681	30.22	Norway	879	11.43
United Kingdom	551	9.91	China	680	8.85
Spain	459	8.25	Germany	672	8.75
United States	384	6.90	United States	652	8.48
France	358	6.43	Netherlands	487	6.34

China has become the number two exporter to Iceland.⁴⁶



Iceland Imports in thousand US\$ from China between 2007 and 2018, World Integrated Trade Solution.
Source: WITS – Country Profile

44 Škoba, L. 2013. *China-Iceland Free Trade Agreement*, Brussels, Library of the European Parliament.

45 Jolly, D. 2013. 'Iceland and China Enter a Free Trade Agreement', *The New York Times*, 15 April.

46 *Iceland Trade Summary 2018 Data*, World Integrated Trade Solution.

Although the volume of Icelandic exports to China is quickly rising, it is still much less than the Netherlands' export volume. Multiple currency swaps between Iceland and the PRC have fuelled trade between the two nations.⁴⁷ On the same day as it signed its trade deal with China, Iceland's President Ólafur Ragnar Grímsson founded the Arctic Circle, a forum that facilitates dialogue on Arctic governance issues. China was invited to take part from the start, as were all other Arctic Council observer countries.⁴⁸

Of particular interest to China is Iceland's know-how in the field of **geothermal energy**. Due to its geothermal energy industry, Iceland is largely able to fulfil its own energy needs in a climate-neutral way. The leading Icelandic company, Orka Energy, cooperated with Sinopec to develop the joint venture Shaanxi Green Energy Geothermal Development (SGE), 51 percent of which is owned by Sinopec. Sinopec subsidiary Star Petroleum Company has signed an agreement with another Icelandic company, Geysir Green Energy, and in 2018 Iceland's Arctic Green Energy Corporation and China's Sinopec (SNPMF) secured a \$250 million loan from the Asian Development Bank to help develop geothermal resources in China.⁴⁹

According to the PRC's Ministry of Land and Resources, geothermal energy could replace up to 25 percent of China's coal needs.⁵⁰ It is **solely dependent** on Iceland for developing its geothermal industry. China's geothermal market could be worth \$11.3 billion to Iceland, according to Xinhua. It should be noted that for the past two decades, the development of the geothermal energy sector in China has stagnated, despite promising beginnings and undiminished potential.⁵¹ Whether Icelandic cooperation will prove to be the start of a Chinese geothermal renaissance remains to be seen.

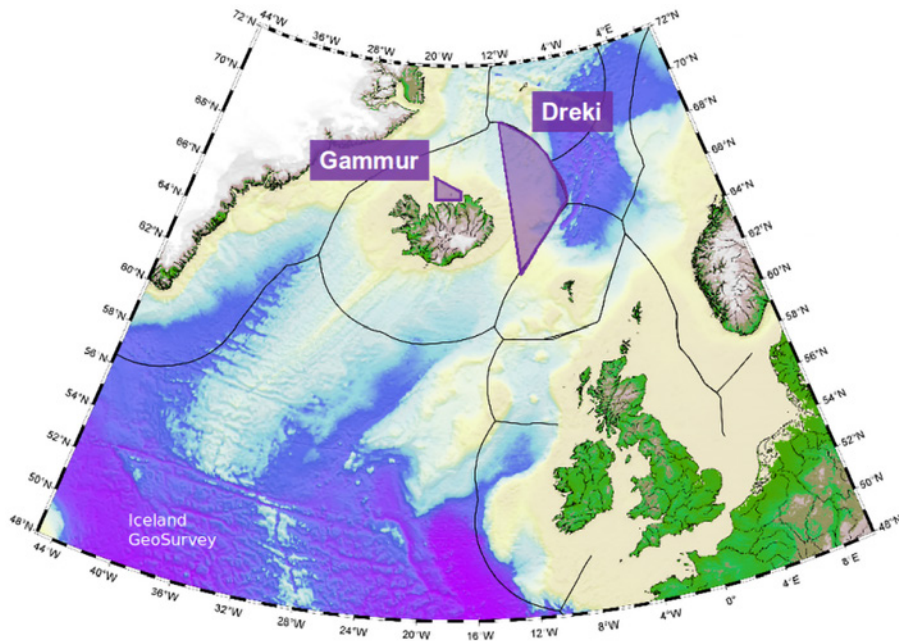
47 [The People's Bank of China and the Central Bank of Iceland have renewed their currency swap agreement](#), The Central Bank of Iceland, 2016.

48 ['About'](#), Arctic Circle website.

49 Kottasová, I. 2018. ['Iceland is bringing geothermal heating to China'](#), *CNN Business*, 27 September; Guschin, A. 2015. ['China, Iceland and the Arctic: Iceland is playing a growing role in China's Arctic strategy'](#), *The Diplomat*, 20 May.

50 Guschin, 'China, Iceland and the Arctic'.

51 Zhang, L. et al. 2019. 'Geothermal power generation in China: Status and prospects', *Energy Science & Engineering* 7.



Source: Iceland Magazine. 2017. 'Report: Oil exploration stopped in part of the Icelandic shelf, but prospectors haven't given up', 6 January.

Moreover, Iceland has sought cooperation with Chinese partner CNOOC in developing **oil and gas** shelf sites, but so far to little avail.⁵² The exploration of Dreki – the most promising site near Iceland's coast – was cancelled when CNOOC, which owned a 60 percent stake in the project, deemed it too expensive and too risky.⁵³ The exploration of Gammur, a relatively young sediment basin of about nine million years, has been put on hold pending environmental assessments.⁵⁴ Whether CNOOC will be involved in exploring the site is not clear.

In 2018, the Polar Research Institute of China (PRIC), together with its Icelandic counterparts, opened the China-Iceland Arctic Science Observatory in northern Iceland. Although initially intended to serve as an aurora observatory, it is now also used to

52 Guschin, 'China, Iceland and the Arctic'.

53 Iceland Magazine. 2018. 'Oil exploration in Icelandic waters comes to an end: Too expensive and too risky', 23 January.

54 [Exploration Areas](#), National Energy Authority.

research satellite remote sensing, raising the question of whether China's presence in Iceland might have long-term security implications.⁵⁵

In conclusion, in Iceland's time of crisis **China filled the strategic void the EU left behind**. The short- to medium-term ramifications ought not to be overstated: China's commercial presence in Iceland is highly specific, flows from transparent commercial interests, and is far from a unanimous success. Yet, given the current geopolitical climate, China's limited presence in Iceland may have long-term strategic effects that should not be ignored.

3.2 A Potemkin presence? A strategic perspective on China's presence in Iceland

So, how must the EU engage with China's growing presence in Iceland? The ambiguity in China's strategy is most powerfully illustrated by the large **new embassy building in Reykjavik** that China has built, which is able to house more than 500 staff.⁵⁶ Strangely, however, it does not. What could be one of China's largest diplomatic missions is mostly empty with only five Chinese diplomats being officially accredited to Iceland.

The building itself may expose the grand strategic ambition to claim an overwhelming presence on the chessboard of Arctic geopolitics. Then again, the seeming hollowness of this impressive presence is reminiscent of the old ruse most commonly known as the Potemkin Village. In order to impress Empress Catherine the Great, it was said that Prince Grigory Potemkin had fake villages built out of painted facades, showing the non-existent splendour of Russian rural life. Is China's presence in Iceland the epitome of **grand strategy**, or a cunning attempt at **Potemkinesk swagger**?

55 Schreiber, S. 2018. '[A new China-Iceland Arctic science observatory is already expanding its focus](#)', *Arctic Today*, 31 October.

56 Eudes, Y. 2013. '[Iceland: Money from China](#)', *Le Monde/Pulitzer Center*, 7 August.

Chinese embassy in Reykjavík



Source: [Wikipedia](#).

There are, beyond doubt, genuine geostrategic aspects to China's presence in Iceland. Most importantly, it should be noted that whether China's engagement is deemed full-bodied or hollow, it is already provoking the other superpower in the **Arctic Arena**, the United States.

In 2018, the then new PRC Ambassador to Iceland, Jin Zhijian, who speaks Icelandic fluently and has studied in Iceland, invited Iceland to join China's grand strategic scheme, the Belt and Road Initiative, saying:

By considering signing the MOU on cooperation within the framework of the 'Belt and Road Initiative' between our two governments and other means, China and Iceland can further enhance practical cooperation in the areas such as trade of agricultural and fishery products, infrastructure construction in aviation and

*communications, green energy, Arctic affairs, tourism, education and people-to-people exchanges.*⁵⁷

This invitation prompted renewed US interest in Iceland. In 2019, both US Secretary of State Mike Pompeo and Vice-President Mike Pence visited Reykjavik. Pompeo announced to local media that Iceland was an important friend of the US and was speaking to the Icelandic government about **security issues related to Russian and Chinese presence** on the island, emphasising the geostrategic importance of Iceland. Pence, on a following visit, stated that:

...the United States is grateful for the stand Iceland took rejecting China's Belt and Road financial investment in Iceland [...] for Iceland to take that stand was an important step and one that we greatly welcome.

Furthermore, Mike Pence said that at a time when the Arctic region was becoming more important, and 'we see more Russian activity in the region, and we see more Chinese ambitions across the Arctic region', that positive **US-Iceland relations** are more essential than ever.⁵⁸ Pence's statement was strange to say the least, as Iceland had, at that point, not explicitly rejected China's offer. Apparently, Pence had hoped that saying it would make it so, and Iceland has not proved him wrong yet, as the invitation is still being considered.

NATO Secretary General Jens Stoltenberg followed up by emphasising the importance of Iceland, a country without an army, to the Alliance. Iceland provides a crucial vantage point from which to conduct **maritime and air surveillance of the North Atlantic** (an aspect of Iceland's geostrategic value China seems to understand equally clearly, given the dual-use capacity of the polar research station).⁵⁹ Moreover, Iceland, as the incumbent chair of the Arctic Council, has an important role to play, according to Stoltenberg, in facilitating dialogue between **NATO and Russia**:

... taking into account the reality that we see a military build-up in this part of the world, we see more Russian presence, we see that they reopen all the Cold War bases, deploy more air defence systems, more submarines, more air presence, in the High North. ... with more weapons, with more planes with more submarines, with more exercises, with higher tensions, it is extremely important that we avoid

57 *Remarks by H.E. Ambassador JIN Zhijian at the reception upon assuming the post and celebrations of Chinese New Year*, Embassy of the People's Republic of China in the Republic of Iceland, 2018.

58 Hauksdóttir, G. 2019. *Pressure in the Arctic: China-Iceland Relations in the Era of U.S.-China Rivalry*, Stockholm, Institute for Security & Development Policy, 4 December.

59 Stoltenberg, J. 2019. *'70 Years of NATO and Iceland: a strong transatlantic bond in an uncertain world'*, Speech at the Nordic House, Reykjavik, 11 June.

*incidents, accidents, miscalculations, that can trigger really dangerous situations and come out of control, and spiral out of control. So therefore, just to manage a difficult relationship is also a strong argument in favour of dialogue with Russia and especially for the High North.*⁶⁰

China's presence may not have been mentioned by Stoltenberg, but it is a crucial factor in virtually all of NATO priorities regarding Iceland. Yet, the **Arctic as such remains a void on NATO's geostrategic landscape.**⁶¹

60 Ibid.

61 For more background on this, see Zandee et al. 2020. [The Future of Arctic Security](#), The Hague, the Clingendael Institute.

4 Greenland: what is China doing there and why?

There was more to Trump's offer to buy Greenland than the callous bravado of a property mogul. Greenland's geostrategic importance is recognised by all the great powers, except, perhaps the EU.

A geopolitical timeline of Greenland

- 1946 | United States offers to buy Greenland
- 1950 | US opens Thule Air Base
- 1972/1973 | The Kingdom of Denmark enters European Communities
- 1979 | The Kingdom of Denmark grants home rule to Greenland
- 1985 | Greenland leaves European Communities
- 2004 | The Kingdom of Denmark ratifies United Nations Convention on the Law of the Sea (UNCLOS)
- 2008 | Greenlanders vote in favour of the Self-Government Act
- 2012 | China's Minister of Land and Resources visits Greenland
- 2014 | First Memorandum of Understanding between Greenland Minerals and Energy (GME) and China Non-Ferrous Metal Industry's Foreign Engineering and Construction Co. (NFC)
- 2014 | The Kingdom of Denmark claims an area of 895,000 km² extending from Greenland beyond the North Pole to the limits of the Russian Exclusive Economic Zone
- 2015 | Minister Qajaqitsog talks about airport, port, hydroelectric and mining infrastructure development with SinoHydro, China State Construction Engineering, China Harbour Engineering
- 2016 | Shenghe Resources buys one-eighth of Greenland Minerals and Energy stocks, which develops a uranium and rare-earth site at Kuannersuisut (Kvanefjeld)
- 2016 | State Oceanic Administration signs agreement with Greenlandic ministry on the construction of a research station
- 2016 | Danish government stops Hong Kong-based General Nice from taking over the abandoned naval base Gronnedal
- 2017 | Prime minister visits China
- 2017 | Ironbark appoints NFC to develop the Citronen Fjord Zinc Mine, exploitation rights remaining with the Australian company until 2046

- 2018 | High-level ceremony to launch the process of building a satellite station that could be used for the Beidou navigational system, widely reported in China but unknown to Greenlandic authorities
- 2018 | China Communications Construction Company bids to build airports in Greenland, prompting Danish government to finance half of the airports

4.1 The presence of voids (II): how China came to Greenland

Trump's failed attempt to buy the autonomous territory of Greenland was not a first: after the Second World War, in 1946, President Truman also attempted to buy the constituent of the Kingdom of Denmark. Only four years later, the US opened Thule Air Base, currently the US Armed Forces' northernmost base, demonstrating **US interest in the area**.

As Greenland was not autonomous until 1979 it joined the European Community as a county, following the Kingdom of Denmark's accession in 1973; six years later, Greenland was granted home rule. Subsequently, in 1982 **Greenland voted to leave the European Community**, and actually left in 1985, to obtain the status of an EU overseas country and territory (OCT). Similar to Iceland's motivations to not accede the EU, Greenland left the EEC following disagreements over Common Fisheries Policy and to regain autonomy over Greenlandic fish resources.

Nevertheless, as an OCT, Greenland's citizens remain EU citizens under treaties and Danish national law. In contrast to other OCTs, EU financial support to Greenland is provided by the general budget, on basis of the Greenland Decision.⁶² The **Multinational Financial Framework 2014–2020** indicated an amount of €217.8 million to be allocated to Greenland as financial assistance.⁶³ As such, Greenland is not eligible for budget support from the European Development Fund (EDF). It can, however, apply for an EDF regional cooperation programme for all OCTs that is aimed at sustainable use of natural resources, for which €16–18 million was made available.⁶⁴ Additionally, Greenland is eligible for general EU programmes and the aforementioned loan opportunities provided by the European Investment Bank.

62 Council of the European Union, *Council decision on relations between the European Union on the one hand, and Greenland and the Kingdom of Denmark on the other*, March 2014.

63 The Government of Greenland, 'Greenland Representation to the EU: EU Funding', webpage.

64 The Government of Greenland, 'Greenland representation to the EU: EU Funding'; European Commission, 'Overseas countries and territories', webpage.

For the **MFF 2021-2027**, the European Commission has proposed a sum of €500 million (current prices) to be allocated to OCTs, of which €225 million (45%) is to be allocated to Greenland and another €225 million to the other OCTs. There is an additional €15 million available for regional integration projects that are open to all OCTs including Greenland (this is a project similar to the €16-18 million for natural resources of the 11th EDF).⁶⁵ This means that EU funding for Greenland is unlikely to increase very much and will continue to be about €30 million per year. This is unlikely to rise, as after Brexit the only EU member states with OCTs are Denmark, the Netherlands (in the Caribbean) and France (mainly in the Pacific). Only the latter is keen to increase the amount for OCTs, with the former two known to be frugal states when it comes to the EU budget, which they wish to constrain. Therefore, even if various EU insiders realise the strategic importance of Greenland (and the Arctic as such), more funding is not on the cards. The EU nonetheless still gives more than the USD 12 million per year the US has recently offered as support to Greenland, and which is considered part of its effort to reduce China's influence on the island.⁶⁶

In 2008, Greenlanders voted in favour of the Self-Government Act. This Act provided the Greenlandic authorities with **increased autonomy**, including the possibility 'to negotiate and conclude international agreements with foreign states and international organisations, which exclusively concern Greenland and entirely relate to the fields of responsibility taken over by Greenland'.⁶⁷ Matters that directly affect defence and security policy are not covered by the Self-Government Act. Nevertheless, this Act leaves room for Greenland to conclude agreements with foreign states, including China.

Given the strategic Arctic coastal dimension and the enormous reserves of natural resources, Greenland is **highly attractive to foreign states, including China**. China's interest in Greenland is recent – it dates back to 2005 when the then-Premier of Greenland, Hans Enoksen, paid a visit to China. In 2011, Greenland's minister for industry and natural resources was the next to pay a visit to China, being welcomed by the vice-premier.⁶⁸ Chinese interest in Greenland's natural resources has been confirmed with the visit of China's then-Minister for Land and Resources, Xu Shaoshi, in April 2012.⁶⁹ The various visits carried out by representatives of both China and Greenland demonstrate their mutual interests. While for China the focus is on polar

65 Pichon, E. 2019. *Briefing: A new association of the Overseas Countries and Territories (including Greenland) with the European Union*, European Parliamentary Research Service.

66 Selsoe Sorensen, M. 2020. 'U.S. aid for Greenland prompts praise and suspicion in Denmark', *The New York Times*, 23 April.

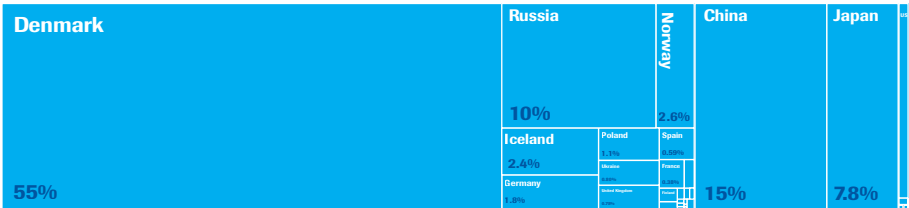
67 *The Greenland Self-Government Arrangement*, adopted on 12 June 2009.

68 Degeorges, D. 2012. 'China in Greenland: A challenge for the European Union', *Euractiv*, 15 June.

69 Pincus, R.H. and Ali, S.H. 2015. *Diplomacy on Ice: Energy and the Environment in the Arctic and Antarctic*, Yale University Press, 156.

research, natural resources and infrastructures, Greenland is looking for investments to further develop its economy,⁷⁰ as currently, China serves mainly as one of the most important markets for the Greenlandic fishery industry.⁷¹ China has become the second most important export destination for Greenland, although it still imports very little from China.

Destinations (Total: \$911M)



Origins Total: \$683M



Source: OEC, [Greenland Country Profile](#), 2017.

In 2013, Greenland repealed a law banning the mining of radioactive material and rare earth elements in order to diversify its economy.⁷² To combine this with the erosion of the Greenland ice sheet, which makes more areas of Greenland open for mining projects, ensures increased (economic) opportunities. Consequently, since 2013 there has been greater cooperation between **China and Greenland in the field of natural resources**.

The first clear sign was the Memorandum of Understanding (MoU) in 2014. The non-binding MoU was signed between the Australian company Greenland Minerals Energy (GME) and China Non-Ferrous Metal Industry's Foreign Engineering and Construction Company (NFC). Under the MoU, GME and NFC will create a **'fully-integrated global rare earth supply chain'**.⁷³

70 Degeorges, 'China in Greenland'.

71 Information from interviews.

72 Archick, K. 2019. [Greenland, Denmark, and U.S. Relations](#), Washington DC, Congressional Research Service.

73 McLeod, C. 2014. ['Greenland Minerals and Energy, China's NFC Sign MOU'](#), *Investing News*, 25 March.

In addition, the most visible Chinese mining venture in Greenland is the **Kvanefjeld Project**. China's Shenghe Resources bought 12.5 percent of GME's shares, which are of particular interest considering that GME calculated that about 270,000 tons of uranium are deposited at Kvanefjeld.⁷⁴ In August 2018, GME and Shenghe agreed upon an MoU, which gave Shenghe the opportunity to take the lead in the processing and marketing of materials extracted from the Kvanefjeld site. In addition to the Kvanefjeld site, Ironbark, in 2017, appointed the NFC to develop the Citronen Fjord Zinc Mine project further, while the right to exploit the mine remains with Ironbark. In 2019, further steps were taken towards commencing mining operations when it was announced that Shenghe would be partnering with another Chinese firm, China National Nuclear Corporation, to enhance the procedure for separating rare earth elements from uranium and thorium deposits at the Kvanefjeld site.⁷⁵

It is clear that China considers Greenland's minerals of strategic value, but they are for the EU as well. The EU's Institute for Strategic Studies recently pointed out that exploitation of rare earth elements in Greenland would reduce a significant strategic EU vulnerability, as it now relies on China for a majority of critical rare earth elements used for the EU defence industry.⁷⁶ It would bolster its technological sovereignty, the ability to digitalise European armed forces, if the EU had direct access to these rare earth elements. This would ensure a proper implementation of the European Commission's 2020 Industrial Strategy. In the midst of the Corona crisis, calls to become less dependent on China are on the rise, and this point may well be taken up more seriously in Brussels now than it was a year ago.

Next to natural resources, **infrastructure** has also become one of the main pillars behind China's presence in Greenland. This has become apparent in various talks between Greenlandic authorities and potential Chinese investors, as early as 2012. Moreover, during a visit to China in 2015, Minister Qujaukitsoq outlined Greenland's infrastructural development plans (including for airports and hydraulic and mining projects) to representatives from Sinohydro, China State Construction Engineering, and China Harbour Engineering, a clear sign of continued Chinese interest in investing in Greenland.⁷⁷ Currently, Greenland, together with Iceland, invites the highest levels of Chinese investments relative to GDP of all Arctic countries.

74 Nuclear Engineering International. 2016. '[China buys shares in Greenland mining company](#)', 4 October.

75 Lanteigne, M. and Shi, M. 2019. '[China steps up its mining interests in Greenland](#)', *The Diplomat*, 12 February; Andersson, P.S. et al. 2018. 'Chinese Mining in Greenland: Arctic access or access to minerals?', in *Arctic Yearbook*, ed. Heininen, L. and Exner-Pirot, H. Akureyri, Iceland, Northern Research Forum, 9.

76 Soare, S.R. 2020. [Arctic stress test: Great power competition and Euro-Atlantic defence in the High North](#), Paris, European Institute for Security Studies.

77 Lulu, J. 2015. '[Greenland airports: possible Chinese investment?](#)', personal blog, 9 December.

Chinese Investment in Arctic Littoral Nations, 2012-2017

	Population	GDP	GDP per capita	Number of Transactions	Average Transaction Size (in USD)	Total Value (Billion USD)	% of GDP
Canada	35,362,905	\$1.53 trillion	\$46,400	107	\$442.1	\$473	2.4%
Greenland	57,728	\$1.06 billion	\$37,600	6	\$33.4	\$2.00	11.6%
Iceland	335,878	\$20.05 billion	\$49,200	5	\$30.8	\$1.2	5.7%
Norway	5,265,158	\$370.60 billion	\$69,400	17	\$147.9	\$2.5	0.9%
Russia	142,355,415	\$1.28 trillion	\$26,900	281	\$691.7	\$194.4	2.8%
USA	323,995,528	\$18.62 trillion	\$57,600	557	\$340.6	\$189.7	1.2%
Total	-	-	-	884	\$508.66	\$449.66	-

Source: Rosen, M.E. and Thuringer, C.B. 2017. *Unconstrained Foreign Direct Investment: An Emerging Challenge to Arctic Security*, Arlington, VA., CNA.

Chinese interest in Greenlandic infrastructure becomes clearer when looking at the attempt of Hong Kong-based company General Nice to take over the **abandoned naval base** Grønndal in 2016. Here we see that when strategic interests are at stake, Denmark steps in.

Then-Prime Minister, Rasmussen, allegedly, prevented General Nice from acquiring the naval base, confirming Danish concerns about the prospects of a growing Chinese presence in Greenland.⁷⁸ A similar situation occurred in 2018, when the Danish government was prompted to finance half of the airports in Greenland. This was a reaction to China Communications Construction Company's bids to build the respective airports. This was another indication of the **Danes not being eager to let Chinese involvement in Greenland grow extensively**.⁷⁹

Finally, China has significantly invested in the establishment of **research stations** over the last years. In general, Beijing is determined to ensure it is a frontrunner in the Arctic, which closely relates to their objectives.⁸⁰ To this end, Beijing aims to ensure that Chinese companies most effectively seize the new opportunities in the Arctic.⁸¹ The core of Chinese activities in the Arctic has centred around building a solid Chinese polar

78 Breum, M. 2016. 'Did Denmark's prime minister stop a Chinese firm from buying an abandoned military base in Greenland?', *Arctic Today*, 23 December.

79 Jesting, K. 2019. *A Touch of Frost: Danish Concerns over Chinese Investment to Greenland*, Stockholm, Institute for Security & Development Policy.

80 Sørensen, C.T.N. 2019. *China as (Near-) Arctic Great Power: Drivers and Perspectives*, Copenhagen, ThinkChina, 2.

81 Ibid., 3.

research capacity, with a specific focus on climate change. In addition, these research stations are essential for China's **civil-military 'BeiDou-2' satellite navigational system**.⁸² In line with these ambitions, China has plans to establish a research station in Greenland. Back in 2016 the State Oceanic Administration had already signed an agreement with the Greenlandic ministry on the construction of a research station.⁸³

In conclusion, **the void created when Greenland was given greater autonomy from central authorities in the Kingdom of Denmark and subsequently left the EEC was happily filled by China**. Even though the Kingdom of Denmark remains responsible for foreign policy and defence, Greenland can now conclude international agreements with foreign states on its own. This raises issues for both the Kingdom of Denmark and the EU.

4.2 A contested presence? A strategic perspective on China's presence in Greenland

Against an emerging great power competition in the Arctic, **Greenland has surfaced** as a potential sore point in Danish-Chinese relations and an upcoming front in Sino-American geopolitical rivalry.

Chinese investment has put significant pressure on the political relationship between Nuuk and Copenhagen. Greenland, eager to diversify its economy away from a dependence on the seafood industry and Danish financial aid, mainly sees the economic opportunities that arise from increased cooperation with China.⁸⁴ Meanwhile, the Kingdom of Denmark has met Beijing's presence on the island with strong opposition, perceiving it as an infringement of Greenlandic sovereignty and, in turn, a potential security threat to the entire Kingdom.⁸⁵ The Kingdom of Denmark's approach towards governance of Greenland is balanced on competing factors of security and support for local decision making. On the one hand, Copenhagen is interested in keeping Greenland as part of the Kingdom due to its strategic significance in Denmark-US relations and the access to the Arctic it provides. On the other hand, it has committed to a policy of expanding Greenland's autonomy, which could eventually move towards full independence.⁸⁶

82 Ibid., 4.

83 Martin, M. 2018. 'China in Greenland: Mines, Science, and Nods to Independence', *China Brief* 18(4).

84 Lanteigne, M. and Shi, M. 2019. 'China Steps up Its Mining Interests in Greenland'.

85 Matzen, E. and Daly, T. 2018. 'Greenland's courting of China for airport projects worries Denmark', *Reuters*, 22 March; Dubois, K. 2018. 'The security implications of China-Greenland relations', *The Polar Connection*, 10 July.

86 Kuo, M.A. 2019. 'Greenland in US-Denmark-China relations', *The Diplomat*, 2 October.

An example of this dilemma is a disagreement on the mining of uranium and rare earth elements, which, it was argued, falls under national security policy in Copenhagen and under local resource extraction in Nuuk.⁸⁷ This issue was ultimately resolved in 2016, allowing the Kvanefjeld project to proceed.⁸⁸ Another example were the prospects of Chinese financing for the construction of three commercial airports in Greenland, which was quickly shot down by Copenhagen after the Pentagon raised its concerns.⁸⁹ With Danish attempts to securitise certain economic sectors, **China's economic presence** on the island is expected to remain a significant factor in ongoing discussions about **future Greenlandic independence**.⁹⁰ Greenland's plan to open a diplomatic representation in China seems to suggest a closer alignment between the two than the Kingdom of Denmark and the US would desire.⁹¹

It is important to mention, however, that were Greenland to open a representation in China, as it has recently announced, its representatives would function as Danish diplomats. Moreover, such a representation would be responsible for diplomatic contact with East Asia in its entirety, and not for China alone.⁹² Nevertheless, significant debate is still expected in the autumn on this matter and it is therefore not certain that a Greenlandic representation in China similar to the one that exists in Brussels would materialise.

On the other side of the Atlantic, the strategic significance of Greenland has been recognised with renewed vigour under the **Trump administration**.⁹³ Recently, the US State Department declared that:

*the United States remains committed to increasing our already robust engagement with Arctic allies and partners. Our strong partnerships with the people of Denmark and Greenland help us better coordinate our efforts in this strategically important region.*⁹⁴

87 Ibid.

88 Vestergaard, C. and Thomasen, G. 2016. [New uranium deal between Denmark and Greenland clarifies competences](#). Copenhagen, Danish Institute for International Studies.

89 Hinshaw, D. and Page, J. 2019. [How the Pentagon countered China's designs on Greenland](#), *The Wall Street Journal*, 10 February.

90 Lanteigne and Shi, 'China Steps up Its Mining Interests in Greenland'.

91 Copenhagen USDAO News Alert. 2019. 'Greenland to open a representation in China', 25 March.

92 Information from interviews.

93 Kuo, 'Greenland in US-Denmark-China Relations'.

94 Gramer, R. 2020. [Trump's budget puts down stakes in Greenland](#), *Foreign Policy*, 13 February.

To enhance its physical presence beyond Thule Air Base, the US has allocated half a million dollars to re-establish a consulate on Greenland.⁹⁵ Additionally, plans for greater strategic cooperation between the US and the Kingdom of Denmark were announced in December 2018, and more recently in April 2020.⁹⁶

So far, **Sino-American confrontation** on Greenland has only materialised in issues of direct strategic concern to the US. Washington pushed back against Chinese investment plans for Greenlandic airports, fearing it would be used by Beijing to gain a military foothold, whereas Chinese participation in the mining industry has received less attention.⁹⁷

Compared to China and the US, **EU engagement with Greenland is like a drop in the Arctic Ocean, despite it paying about €30 million per year.** While the Arctic rises in geopolitical and geo-economic significance, the EU has been slow to reconsider its strategic interests. In a strategic note published in 2019, the European Political Strategy Centre recognised the need for the EU to step up its engagement with Arctic states and other stakeholders. To this end, it recommended that the EU adopt ‘a more strategic, visible and integrated’ approach following the **Chinese example**, as well as to open a ‘programme office’ or ‘open contact point’ in Greenland.⁹⁸ While Greenland has had a representation office in Brussels since 1992, the EU has no official representation to match the US diplomatic or Chinese commercial presence.⁹⁹ The Commissions Work Programme of 2020 does not refer to the need to update EU Arctic Policy.¹⁰⁰

To summarise, the greater accessibility of mineral deposits has turned Greenland **from a geopolitical void into a focal point.** China’s economic interests in the mining sector and infrastructure projects have put serious strain on relations between the Kingdom of Denmark and Greenland, who struggle to agree what types of foreign investment fall under whose jurisdiction. At the same time, both governments have to manage their relations with the US. The US, in turn, is increasingly assertive towards a Chinese presence in such close proximity to its borders.

95 Ibid.

96 Skydsgaard, N. and Gronholt-Pedersen, J. 2019. ‘[Denmark approves new U.S. consulate in Greenland](#)’, *Reuters*, 18 December.

97 Lucht, H. 2018. [Chinese investments in Greenland raise US concerns: Strictly business?](#), Copenhagen, Danish Institute for International Studies; Hinshaw and Page, ‘How the Pentagon Countered China’s Designs on Greenland’.

98 European Political Strategy Centre, 2019. [Walking on Thin Ice: A balanced Arctic strategy for the EU](#), 11.

99 Gattolin, A. and Degeorges, D. 2019. ‘[China vs. USA in Greenland: The EU needs to step up its engagement](#)’, *Euractiv*, 5 September.

100 Zandee et al., [The Future of Arctic Security](#).

5 The power of presence: engaging China in the Arctic

*'[We are] confronted with unpredictable international developments and a complicated and sensitive external environment. Our task at hand is to maintain stability as we continue our reform and development. ... We must maintain a high degree of vigilance. We must keep our high alert about any 'black swan' [or unforeseen] incident, and also take steps to prevent any 'grey rhino' [highly possible yet ignored threats].'*¹⁰¹

*'China must defuse international crises and cunningly use them to its own advantage.'*¹⁰²

Xi Jinping

In what ways could and should **the Netherlands and the EU address China's growing presence** in the Arctic, and in Greenland and Iceland in particular?

5.1 China's Arctic strategy

To answer this question, it is worthwhile to summarise the Chinese strategic vision of the High North. The PRC sees the Arctic as one of the **geostrategic arenas** in which its fate as a rising superpower will be decided. Building a legitimate Arctic presence is a long-term project, with long-term goals pursued by short- and medium-term methods.

Why? Because of what Xi Jinping likes to call **'Grey Rhinos'** – predictable threats of huge consequence in the (very) long term, such as climate change – and **'Black Swans'** – unpredictable, seemingly small events that turn into game-changers to the international system, like the 2008 financial crisis or the 2020 Corona crisis, even if it was forecast in some scenarios. Xi will most likely see the Arctic as an arena full of Grey Rhino threats and Black Swan risks, such as the following:

101 Mai, J. 2019. *'Be vigilant about threats to China's stability and reforms, Xi Jinping tells top cadres'*, *South China Morning Post*, 22 January.

102 Dams, T. 2018. *De Nieuwe Keizer. Xi Jinping, de machtigste man van China*, Amsterdam, Prometheus.

Grey Rhino Threats	Black Swan Risks
Climate change-related security threats	Ecological crisis
Opening-up of the NSR	Russian economic or political collapse
Re-militarisation of the Arctic	Icelandic economy falters
Growing tension between US-Russia-China	Greenland independence movement
UNCLOS disputes	

China's policy of building up its presence in the Arctic arena is as little about seeking hegemony as it is about scientific exploration; **it is about building capacity to shape decision making when a Grey Rhino threat materialises, and also about being able to quickly use a Black Swan crisis to its own advantage**, such as it did during the financial collapse of Iceland. In the Arctic arena, China exploits the two basic geostrategic advantages it has all over the world: it is big enough to be everywhere and able to take things slow. It pursues a policy of building presence before seeking power, knowing that it can cash in whenever circumstances demand it.

This leads us to three key insights into the Chinese Arctic strategy:

1. *China's has systematically used **voids in the European geostrategic imagination – Greenland and Iceland in particular** – to build presence and seen as a legitimate near-Arctic power.*
2. *To European countries, China's growing presence in the Arctic is not a direct threat, but a classic **Grey Rhino challenge itself** – a long-term strategic issue of great importance and low urgency.*
3. ***European countries share many of China's interests in dealing with the abovementioned threats and risks**, even though they may prioritise and frame them differently.*

Above all, China shows the power of presence: by claiming a chair at the table, it is already reshaping the geopolitics of the High North.

5.2 EU Arctic strategy

The EU's challenge will be to re-engage the Arctic, and Iceland and Greenland in particular, in a similar multi-layered way, coordinating short- medium- and long-term strategies. As the European Commission's China strategy reminds us:

*China is, simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance. This requires a flexible and pragmatic whole-of-EU approach enabling a principled defence of interests and values. The tools and modalities of EU engagement with China should also be differentiated depending on the issues and policies at stake. The EU should use linkages across different policy areas and sectors in order to exert more leverage in pursuit of its objectives.*¹⁰³

With particular reference to the Arctic, the EU should match China's strategic ambiguity by adopting a pragmatic, integral and varied approach, pursuing different modes of engagement and different timelines simultaneously. The spectrum of potential engagement offers the EU three basic modes of action in the short, medium and long term:

1. *China's growing presence in the Arctic is, especially in the **short term**, an opportunity for European research as well as for the economies of the European Arctic countries.*
2. *In the **medium term**, European countries should prepare for **commercial competition** with China, the US and Russia over the potential gains of an ice-free Arctic.*
3. *China challenges the EU to build a **strong geostrategic presence** in the High North, embracing issues of security and great power competition, not to aggravate, but to lower tensions between China, the US and Russia in the **long term**, and to **help smaller countries like Greenland and Iceland keep geopolitics at bay**.*

¹⁰³ [*Europe-China. A Strategic Outlook*](#), European Commission and HR/VP contribution to the European Council, March 2019.

5.3 Dutch strategy

The Netherlands has an important role to play both in engaging the Arctic by means of its own Arctic policy, as well as in co-shaping EU policies. The Dutch Arctic strategy focuses on sustainability, international cooperation and scientific research. These are probably the areas where it has most influence, although it also has (potential) commercial interests in resource exploration and maritime transport via the Arctic, and it is a big importer of fish from Greenland and Iceland. As a member of NATO, the Netherlands would also be able to address Arctic issues there. The importance the Netherlands attaches to the region is underlined by the position of an Arctic Ambassador.

Within the Arctic Council, the Netherlands as an observer is active in three working groups, namely, the Arctic Monitoring and Assessment Programme, Conservation of Arctic Flora and Fauna and the Sustainable Development Working Group. The Dutch Polar Programme is at the forefront of polar research, participating in research at Spitsbergen (Svalbard).

To the Netherlands, specifically, the strategic challenge will be to:

1. cultivate its leading role in Arctic research, working with the PRC where possible and mutually beneficial, while contributing to an expansion of shared EU research investments
2. help prepare Dutch companies for current trends and coming shocks in the Arctic economy, including China's growing presence; coordinate Arctic and China policy
3. help lead the call for an EU geostrategic outlook on the Arctic, including China's role.

To this end, the Dutch government would be recommended to:

1. With regard to the Dutch Arctic policy:
 - Consider how Sino-Russia cooperation in the Arctic may influence possibilities for maritime transport from the Netherlands/north-western Europe to China
 - Keep investing in Polar research
 - Investigate to what extent worries and/or questions exist with Dutch Arctic researchers concerning cooperation with China
 - Invest in research cooperation with Greenland and Iceland
 - Consider how the Netherlands' strategic position as fish importer and distributor might be affected by increased demand by China for fish from Iceland and Greenland
 - Coordinate Arctic and China policy, e.g. with regard to the digital connection from Finland to China (Arctic Connect)
 - Forecast the impact of an ice-free Arctic, how EU-China relations and EU relations with Iceland and Greenland will be affected, e.g. with regard to fisheries

2. With regard to the Dutch position in EU:

- Assess what strategic technologies and minerals/rare earth elements are of particular concern to the Netherlands, and consider how the EU's raw materials strategy could take this into account
- Support investments into Russian Arctic development, notably with regard to harbour development and search and rescue capacity
- Support a re-opening of EU accession negotiations with Iceland, and should Greenland become independent from Denmark do the same for this country. If Greenland continues to be part of the Kingdom of Denmark, aim to re-include it in the European Economic Zone
- Consider supporting an increase of spending for the EU's OCTs even if this adds pressure to the overall debate on the EU budget
- Reconsider how EU sanctions against Russia might lead to (unwarranted) Sino-Russia cooperation in the High North and how this could be addressed.
- Support the EU being granted observer status in the Arctic Council, despite this not seeming to make a significant difference in the short term (it nevertheless is of symbolic value)
- Support the EU in starting a four-way dialogue on confidence-building measures to lower tensions in the Arctic (EU, US, China, Russia)